

M e m o r a n d u m

To: Panel Members Date: September 27, 2002

From: Creighton Chan, Manager
Peter DeMauro, General Counsel Analyst: D. Woodside

Subject: One-Step Agreement for **SAP Labs, Inc.**
(www.saplabs.com)

CONTRACTOR:

- Training Project Profile: Retraining: companies with out-of-state competition
- Legislative Priorities: Moving to a High Performance Workplace
Stimulating Exports/Imports
Potentially Displaced Workers
- Type of Industry: Services /Software Development
- Repeat Contractor: Yes
- Contractor's Full Time Employees:
 - Company Wide: 21,000
 - In California: 719 (SAP Labs, Inc. only)
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$91,000
- Substantial Contribution: \$0
- Total ETP Funding: \$91,000
- In-Kind Contribution: \$350,000
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Santa Clara
- Duration of Agreement: 24 months

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

Labhart Miles Consulting Group, Inc.(San Jose, California) assisted with the development of the application for a flat rate of \$8,000.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET9-1038	Palo Alto	5/3/99-5/2/01	\$39,000	\$37,960	97%
ET00-0286	Palo Alto	4/3/00-4/2/02	\$322,400	\$158,860	49%*

**Under its second ETP Agreement, the company retrained 182 people and earned \$158,860. The company attributes the 49% completion rate to its inability to train more workers because of the unforeseen downturn in the economy and the cancellation of classes after the events of September 11, 2001. The new proposal is based on a thorough assessment and strong management support. The company believes that the much more conservative request of \$91,000 is attainable.*

NARRATIVE:

Founded in 1997, SAP Labs, Inc., located in Palo Alto, is a subsidiary of and serves as the software development center for SAP AG, a maker of complex software systems that integrate processes within and among business enterprises. As a development center, SAP Labs, Inc. develops new software and upgrades and improves existing software. SAP software systems, often described as “enterprise resource planning systems,” create electronic links among all areas of a firm or group of firms, including business processes, human resources, manufacturing, forecasting, sales, customer relations, and supplier relations. In the past, these software installations were sold primarily to large corporate customers. In October of 1999, SAP first shipped mySAP.com, an Internet-based product that permits smaller companies to use SAP systems. This diversification of products and services using the Internet and the resultant technological changes were the basis of the prior ETP Agreement. SAP Labs, Inc., was approved as eligible for standard ETP retraining under Title 22, California Code of Regulations, Section 4416(a)(3,4) Out-of-State Competition, as a company which provides a service out-of-state.

In 2002, SAP Labs, Inc. reorganized two SAP Markets and Portals subsidiaries also located in Palo Alto, California, and integrated them into SAP Labs. These employees are primarily engaged in creating and selling to customers the e-enterprise portal system, a mechanism whereby customers and vendors can link to each other’s supply and demand requirements through the Internet. As a result of the reorganization,

NARRATIVE: (continued)

the company added employees who need to be retrained in new computer skills, managing people in a team environment, and Internet-based systems. Rather than reduce the workforce, SAP Labs is making the effort to retrain its workers and ensure that all of its employees have the most up-to-date skills to remain employed and thus maintain the company's competitiveness in a worldwide marketplace.

As a result of the integration of SAP Portal's and SAP Market's employees into SAP Labs, Inc., there is a need for cross-training pertaining to the various products each company supplies. These new employees must also receive training that will continue the company's adaptation of the high performance workplace. To meet these goals, SAP Labs is requesting ETP funds to retrain 175 of its software developers, managers, product specialists and quality management specialists in Computer, Business, Management, and Continuous Improvement skills. Twenty-eight percent of the trainees are Managers and/or Supervisors.

Computer Skills: All trainees will learn to write complex software programs in new software languages and network configurations. This training will assist former Markets and Portals personnel take on more technical aspects of programming, which was not required previously in their skill set. Such retraining allows SAP Labs to retain talented individuals by retraining them, rather than laying them off and hiring others.

Business Skills: Business skill training for all trainees will emphasize teambuilding, project management skills and leading key initiatives to prepare workers for their expanded roles within the company. As the company continues to grow globally, communication, presentation, leadership skills and an increased awareness of both SAP and competitors' technologies become a necessary part of every employee's job.

Management Skills: Management skills training will focus on preparing frontline managers involved with day-to-day production and quality issues with the skills needed to effectively manage (and also train) employees with varying skill sets and different backgrounds. Many managers already have the technical competencies to be good programmers. However, management training will provide techniques and skills to enhance abilities to motivate staff, build teamwork and consensus, master goal setting, and communicate effectively. These skills will provide the employees with the management tools that will be essential to SAP Labs' long-term growth.

Continuous Improvement Skills: The focus of this continuous improvement training, which is very different from past ETP-funded training, is on skills necessary to be successful in a "distributed work environment" (i.e., an environment in which fellow employees and team members are located in other countries, such as Germany, India, Canada, and across the United States). It includes training in effective team-building and communicating in a "virtual" office environment and from remote locations to ensure smooth transitions between employees with the ultimate goal of servicing customers worldwide.

Training will consist of 40 classroom/laboratory hours for each trainee. All training will occur on company premises and be provided by qualified in-house trainers.

The Contractor will provide all contract administration services.

Supplemental Nature of Training

SAP Labs, Inc., is committed to an on-going investment in training and employee retention. Unlike some high technology companies, SAP seeks to retain its employees, recognizing that skilled workers can be retrained, rather than hiring and then laying off workers during economic downturns or market cycles.

SAP Labs has provided in the past, and continues to provide, the following types of training to its employees: Computer Skills (including R3 systems and applications, overview of XML, Java programming basics, CORBA programming, Internet programming, and PERL programming, to name a few) and Management Skills (including communicating in a software development environment, Project 98, treasury management functions, and process manufacturing, to name a few). These courses continue to be offered by SAP Labs, but are not included in this request for funding from the ETP. On-going training also includes classroom instruction, computer-based training, and on-the-job training in various skill areas. Over the course of the next two years, the company anticipates spending over \$550,000 in non-ETP funded training. This figure does not include wages paid to employees while they are in training.

All of the courses included in the ETP training plan are critical to SAP's ongoing success which requires a productive workforce well-versed in the various aspects of the customers' markets (i.e. software programming, selling, expanding on the portals market, etc.). These courses have not been previously provided by SAP Labs, and the training is driven by the need to retrain integrated employees from other divisions, rather than engage in a reduction of force. If SAP Labs was unable to obtain funding assistance from the ETP, it would be forced to delay training due to budget constraints. This would affect the company's ability to compete on a global basis and would likely affect the ability of workers to be integrated into their new jobs.

In-Kind Contribution

SAP Lab's in-kind contribution is \$335,000 for wages paid to trainees while attending ETP-funded training, and \$15,000 for books, manuals and other direct material costs in excess of ETP funds, for a total in-kind contribution of \$350,000.

COMMENTS:

No senior level managers or other executives who set company policy are included in the proposed training.

Most participants in this project meet the Panel definition of frontline worker under Title 22 California Code of Regulations, Section 4400 (ee) except for 50 managers involved in Software and Product Development, and Quality Management.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funds are available and the project meets Panel priorities. This recommendation is based on the company's statement that this training will result in improved competitiveness in the global enterprise market resulting in long-term job security for its California workforce.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job 1 Retrainee	Menu: Computer Skills, Business Skills, Management Skills, and Continuous Improvement	175	40	0	0	\$520	\$24.55-\$78.29
					<u>Range of Hourly Wages</u> \$24.55-\$78.29		
					<u>Prevalent Hourly Wage</u> \$43.47		
					<u>Average Cost per Trainee</u> \$520		
<u>Health Benefit used to meet ETP minimum wage:</u> N/A					<u>Turnover Rate</u> 16%	<u>% of Mgrs & Supervisors to be trained:</u> 28%	

SAP Labs, Inc.
Menu Curriculum

Hours
Class/Lab: 40 *Trainees will receive any of the following:*

Computer Skills:

Customer Relationship Management (CRM)
Supply Chain Management (SCM)
Enterprise Portals
Uniform Markup Language (UML) Programming
SAP Business Connector
Java Connector
Solution Production Info Series
Software Lifecycle Development
Performance Testing
Development Support
Test Workbench
SAP Portals 5.0
.Net Overview
VB.net
ASP.net
Business Information Warehouse 3.0
Java Programming

Business Skills:

Project Management
Project Leadership
MySAP info Sessions

Management Skills:

Managing Effectively I
Managing Effectively II – the series
Managing Effectively III

Continuous Improvement:

Team Development
Remote and Virtual Teams